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Annual Report

of the

Bessemer and Lake Erie Railroad Company

For the Year Ended December 31,

1974

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Annual Report

of the

Bessemer and Lake Erie Railroad Company

For the Year Ended December 31,

1974

BESSEMER

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BESSEMER AND LAKE ERIE RAILROAD COMPANY

General Offices, 600 Grant Street, Pittsburgh, Pennsylvania 15219

DIRECTORS

F. A. FITZPATRICK	Chicago, Illinois
V. W. KRAETSCH	Pittsburgh, Pennsylvania
R. D. LAKE	Pittsburgh, Pennsylvania
M. E. LANTZ	Pittsburgh, Pennsylvania
J. D. MORRISON	Pittsburgh, Pennsylvania
J. W. READ	Greenville, Pennsylvania
D. B. SHANK	Duluth, Minnesota
M. S. TOON	Pittsburgh, Pennsylvania

OFFICERS

M. S. TOON	President	Pittsburgh, Pennsylvania
R. D. LAKE	Vice President	Pittsburgh, Pennsylvania
V. W. KRAETSCH	Vice President—Finance	Pittsburgh, Pennsylvania
J. D. MORRISON	Secretary	Pittsburgh, Pennsylvania
M. E. LANTZ	Comptroller	Pittsburgh, Pennsylvania
J. E. RALPH, Jr.	Treasurer	Pittsburgh, Pennsylvania

BESSEMER AND LAKE ERIE RAILROAD COMPANY

600 GRANT STREET · PITTSBURGH, PENNSYLVANIA 15219

February 28, 1975

The following is a report of operations and affairs of the BESSEMER AND LAKE ERIE RAILROAD COMPANY for the year ended December 31, 1974.

I should like to express my appreciation for the cooperation and efforts of officers and employees who year after year continue to make the B&LE the fine railroad that it is.

M. S. TOON
President

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.

TWO GATEWAY CENTER
PITTSBURGH, PENNSYLVANIA
January 24, 1975

TO THE BOARD OF DIRECTORS
BESSEMER AND LAKE ERIE RAILROAD COMPANY:

In our opinion, the accompanying balance sheet and the related statements of income and retained income and of changes in financial position present fairly the financial position of Bessemer and Lake Erie Railroad Company at December 31, 1974 and 1973, the results of its operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

BESSEMER AND LAKE EF

BALANCE

ASSETS

	December 31, 1974	December 31, 1973
CURRENT ASSETS:		
Cash	$ 288,123	$ 439,947
Marketable securities at cost (approximates market)	21,700,894	18,805,658
Receivables	9,022,142	8,778,761
Materials and supplies (at lower of average cost or market)	8,175,169	5,273,732
Total current assets	39,186,328	33,298,098
PROPERTY INVESTMENTS:		
Properties (Exhibit IV-A)	121,601,749	116,546,624
Less – depreciation	46,168,341	44,081,726
	75,433,408	72,464,898
OTHER ASSETS AND DEFERRED CHARGES	1,239,227	1,094,425
	$115,858,963	$106,857,421

* Restated to conform with current classifications

(See notes to financial statements)

EXHIBIT I

IE RAILROAD COMPANY

SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1974	December 31, 1973
CURRENT LIABILITIES:		
Accounts payable	$ 14,193,279	$ 10,973,192
Employment costs payable (except railroad retirement taxes)	3,226,534	2,128,654
Accrued taxes	4,309,253	4,456,711
Total current liabilities	21,729,066	17,558,557
OTHER LIABILITIES	608,269	501,568*
LONG-TERM DEBT DUE AFTER ONE YEAR:		
First mortgage, 2-7/8%, Series A Bonds, due December 1, 1996	4,941,000	5,367,000
Less - unamortized discount	11,387	12,201
- bonds held in treasury	1,060,000	1,486,000
Net long-term debt	3,869,613	3,868,799
Total liabilities	26,206,948	21,928,924
DEFERRED FEDERAL TAXES ON INCOME	8,735,899	7,566,508
SHAREHOLDERS' EQUITY:		
Capital stock:		
Common - no par-authorized and issued - 10,000 shares	500,000	500,000
$3 cumulative preferred - $50 par-authorized and issued - 40,000 shares	2,000,000	2,000,000
$1.50 cumulative preferred - $50 par-authorized and issued - 200,000 shares	10,000,000	10,000,000
Total capital stock	12,500,000	12,500,000
Retained income (Exhibit II)	68,416,116	64,861,989*
Total shareholders' equity	80,916,116	77,361,989
	$115,858,963	$106,857,421

EXHIBIT II

BESSEMER AND LAKE ERIE RAILROAD COMPANY

STATEMENT OF INCOME AND RETAINED INCOME

	Year Ended December 31, 1974	1973
REVENUES		
Operating revenues	$66,154,314	$53,997,637
Rental of equipment (net)	678,768	379,047
Non-operating income (net)	2,700,175	1,515,568
	69,533,257	55,892,252
COSTS		
Operating expenses:		
Maintenance: Way and structures	8,489,707	7,214,594
Equipment	12,674,678	9,806,659
Transportation	16,956,074	13,795,841
All other	6,637,718	5,186,092
Interest	305,678	1,868,544
Taxes other than state and federal income taxes	4,164,959	3,193,358
	49,228,814	41,065,088
Income before taxes on income	20,304,443	14,827,164
TAXES ON INCOME		
Federal:		
Currently payable	7,549,769	6,542,895
Deferred	1,169,391	336,038
State	1,311,180	1,204,867
	10,030,340	8,083,800
NET INCOME	10,274,103	6,743,364
DIVIDENDS PAID		
Preferred:		
$1.50 cumulative preferred	(299,976)	(299,976)
$3.00 cumulative preferred	(120,000)	(120,000)
Common	(6,300,000)	(5,100,000)
	(6,719,976)	(5,519,976)
RETAINED INCOME		
Net addition in year	3,554,127	1,223,388
Balance at beginning of year	64,861,989*	63,638,601*
Balance at end of year (Exhibit I)	$68,416,116	$64,861,989*

* Restated to conform with current classifications

(See notes to financial statements)

EXHIBIT III

BESSEMER AND LAKE ERIE RAILROAD COMPANY

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31, 1974	1973
Additions to working capital		
Net Income	$10,274,103	$ 6,743,364
Add - Depreciation	2,532,313	2,179,124
Deferred taxes on income	1,169,391	336,038
Proceeds on sale of property in excess of profit on retirements	471,997	3,305,172
Miscellaneous additions	–	1,206,362
Total additions	14,447,804	13,770,060
Deductions from working capital		
Additions to property and equipment	5,972,820	4,730,936
Dividends	6,719,976	5,519,976
Miscellaneous deductions	37,287	–
Total deductions	12,730,083	10,250,912
Increase in working capital	$ 1,717,721	$ 3,519,148

ANALYSIS OF CHANGES IN WORKING CAPITAL

Working capital at beginning of year	$15,739,541	$12,220,393
Increase (decrease) in current assets:		
Cash	(151,824)	(11,227)
Marketable securities	2,895,236	7,451,099
Receivables	243,381	856,938
Materials and supplies	2,901,437	(372,292)
Total	5,888,230	7,924,518
Increase (decrease) in current liabilities:		
Accounts payable	3,220,087	2,507,124
Employment costs payable (except railroad retirement taxes)	1,097,880	156,776
Accrued taxes	(147,458)	1,741,470
Total	4,170,509	4,405,370
Increase in working capital	1,717,721	3,519,148
Working capital at end of year	$17,457,262	$15,739,541

(See notes to financial statements)

BESSEMER AND LAKE ERIE RAILROAD COMPANY

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Income Recognition

Revenues from transportation services performed and related costs are included in income when services are rendered to the customer.

Wear and Exhaustion of Facilities

For financial accounting purposes, the Company uses the straight-line method of depreciation as prescribed by the Interstate Commerce Commission, with respect to depreciable road properties, equipment, and miscellaneous physical properties. Normal retirements of depreciable property are charged to the appropriate depreciation reserve at cost less salvage. Costs of repairs and maintenance are charged to operations when and as incurred.

For rails, ties, and other track materials, instead of depreciation accounting, the Company follows an acceptable alternate practice of "replacement" accounting. Under this method, replacements in kind are charged to expenses, and betterments (improvements) are capitalized. The amounts capitalized are not depreciated and are charged against income only when the related properties are retired.

Income Taxes and Investment Credit

The Company is included in the consolidated federal income tax return filed by its parent, United States Steel Corporation; however, the tax provisions are the approximate amounts which would be computed by the Company on a separate return basis and the amounts so determined are payable to its parent.

Depreciation is recognized in different years for income tax and for financial accounting purposes. This timing difference results in the provision for taxes on income for financial reporting being more than the taxes currently payable.

Investment tax credits are accounted for under the flow through method for purposes of the Company's annual report to shareholders.

Pensions

Substantially all the Company's employees are participants in the United States Steel Corporation plan for employee pension benefits. Pension costs for the plan are based upon various actuarial factors and an actuarial method under which current and past service costs are combined and funded (by payment into pension trusts) over the remaining service of employees, which on the average is less than 15 years. Actuarial gains and losses are amortized over a similar period. Appreciation or depreciation in the value of assets of the trusts are similarly treated. From time to time all actuarial factors are adjusted in light of actual experience.

Casualty Losses

The Company is for the most part, a self-insurer of its assets against fire, windstorm, wrecks, property damage and related losses. A reserve for self-insured losses of $285,131 has been reclassified to retained income for 1973 and 1974.

TAX SETTLEMENTS

During 1973, agreement was reached with the U. S. Government for settlement of the long-standing controversies with respect to the Korean War Excess Profits Tax for the years 1950 - 1953 and obsolescence deductions recognized during the years 1953 - 1956. Income tax assessments of $895,280 in excess of amounts previously provided and related interest expense of $1,755,322 have been included in the 1973 Statement of Income. The effect of these settlements was a $1,731,740 reduction in net income for the year ended December 31, 1973.

PENSION COSTS

Pension costs were $2,112,000 in 1974 and $1,249,000 in 1973. The increase in costs resulted from higher payrolls; changes in the current mix of participants; and beginning August 1, 1974, recognition of an increase in pension benefits and revisions to actuarial factors. The cost effect of new benefits was $264,000 and of actuarial factors, $141,000.

Prior to 1974, the value of the pension trust assets exceeded its liability for vested benefits. Because of the recognition of new benefits, the liability for vested benefits at December 31, 1974 exceeded the value of trust assets for the entire plan. No allocation of this liability was made to participating companies since the amounts are not presently determinable.

No material increases in pension costs are expected to result from the Employee Retirement Income Security Act of 1974.

LONG-TERM LEASES

The Company has entered into various lease agreements primarily relating to locomotives and freight cars. The terms of the leases range from 7 to 18 years and the Company has the option to purchase such equipment at an amount equal to the appraised fair market value at the end of the lease periods. The Company is responsible for the payment of all taxes, insurance and maintenance associated with the equipment.

As of December 31, 1974, future rentals under noncancelable leases totaled $40,300,000. For the years 1975 through 1979, the annual rentals are expected to be $3,600,000 and thereafter for the next two five-year periods are in the aggregate $14,300,000 and $8,000,000, respectively.

TRANSACTIONS WITH AFFILIATED COMPANIES

Included in the financial statements of the Company are transactions with its parent and other affiliated companies. These transactions are either in accordance with published tariffs or separately disclosed in reports to the Interstate Commerce Commission.

1974 AND 1973 AMOUNTS FOR SELECTED ITEMS

	(Thousands)	
	1974	1973
Nondepreciable property, including land and land rights	$26,300	$26,400
Provision for depreciation	2,532	2,179
Current investment credit as a reduction of federal income taxes	520	415
Amortization of pre-1968 investment credit as a reduction of federal income taxes	123	123
Rental expense	4,094	3,915
Net income Interstate Commerce Commission basis	9,836	5,485

EXHIBIT IV-A

BESSEMER AND LAKE ERIE RAILROAD COMPANY

PROPERTY CHANGES DURING THE YEAR 1974

	Balance December 31, 1973	Additions	Retirements	Balance December 31, 1974
Road property	$ 55,166,306	$ 867,865	$ 429,008	$ 55,605,163
Equipment:				
Diesel locomotives	11,193,282 *	327,207	11,559	11,508,930
Freight train cars	43,861,091	4,454,675	461,701	47,854,065
Work and miscellaneous equipment	1,761,694	226,683	691	1,987,686
TOTAL EQUIPMENT	56,816,067 *	5,008,565	473,951	61,350,681
Miscellaneous physical property	4,564,251 *	96,390	14,736	4,645,905
TOTAL PROPERTY	$116,546,624	$5,972,820	$ 917,695	$121,601,749

* Restated to conform with current classifications

EXHIBIT IV-B

UNITS OF EQUIPMENT OWNED AND LEASED

	Owned				Leased	Total Owned and Leased December 31,	
	Dec. 31, 1973	In-stalled	Retire-ments	Dec. 31, 1974	Dec. 31, 1974	1974	1973
Locomotives – Diesel:							
Freight (Units)	17	-	-	17	-	17	17
Switching	1	-	-	1	1	2	1
Multiple purpose	35	1	-	36	17	53	53
Total	53	1	-	54	18	72	71
Freight train cars:							
Hoppers	4,183	-	15	4,168	2,430	6,598	6,614
Gondolas	1,212	650	61	1,801	25	1,826	1,487
Ore hoppers	564	-	4	560	83	643	564
Box cars	185	-	12	173	-	173	185
Other	229	-	27	202	33	235	262
Caboose cars	25	3	3	25	9	34	34
Total	6,398	653	122	6,929	2,580	9,509	9,146
Company Service cars	77	33	2	108	-	108	77

BESSEMER AND LAKE ERIE RAILROAD COMPANY

Comparative Statistics on Operations 1974 vs. 1973

	1974	1973	Increase (Decrease)
Miles of first track operated	220	220	–
Tons – Revenue freight – North	12,614,371	12,487,697	126,674
South	20,104,433	18,796,129	1,308,304
Total	32,718,804	31,283,826	1,434,978
Non-Revenue freight	89,572	55,915	33,657
Grand Total	32,808,376	31,339,741	1,468,635
Carloads – Revenue freight – North	188,092	191,426	(3,334)
South	234,659	219,480	15,179
Total	422,751	410,906	11,845
Tons one mile – Revenue freight – North	1,229,266,293	1,176,356,194	52,910,099
South	1,371,761,580	1,421,793,513	(50,031,933)
Total	2,601,027,873	2,598,149,707	2,878,166
Non-Revenue freight	4,805,058	2,889,430	1,915,628
Grand Total	2,605,832,931	2,601,039,137	4,793,794
Freight train miles	780,417	802,420	(22,003)
Locomotive Miles			
Diesel locomotives: Freight	811,720	779,141	32,579
Switching – Train	77,342	79,556	(2,214)
Yard	243,126	255,284	(12,158)
Total	1,132,188	1,113,981	18,207
Work service	10,592	8,483	2,109

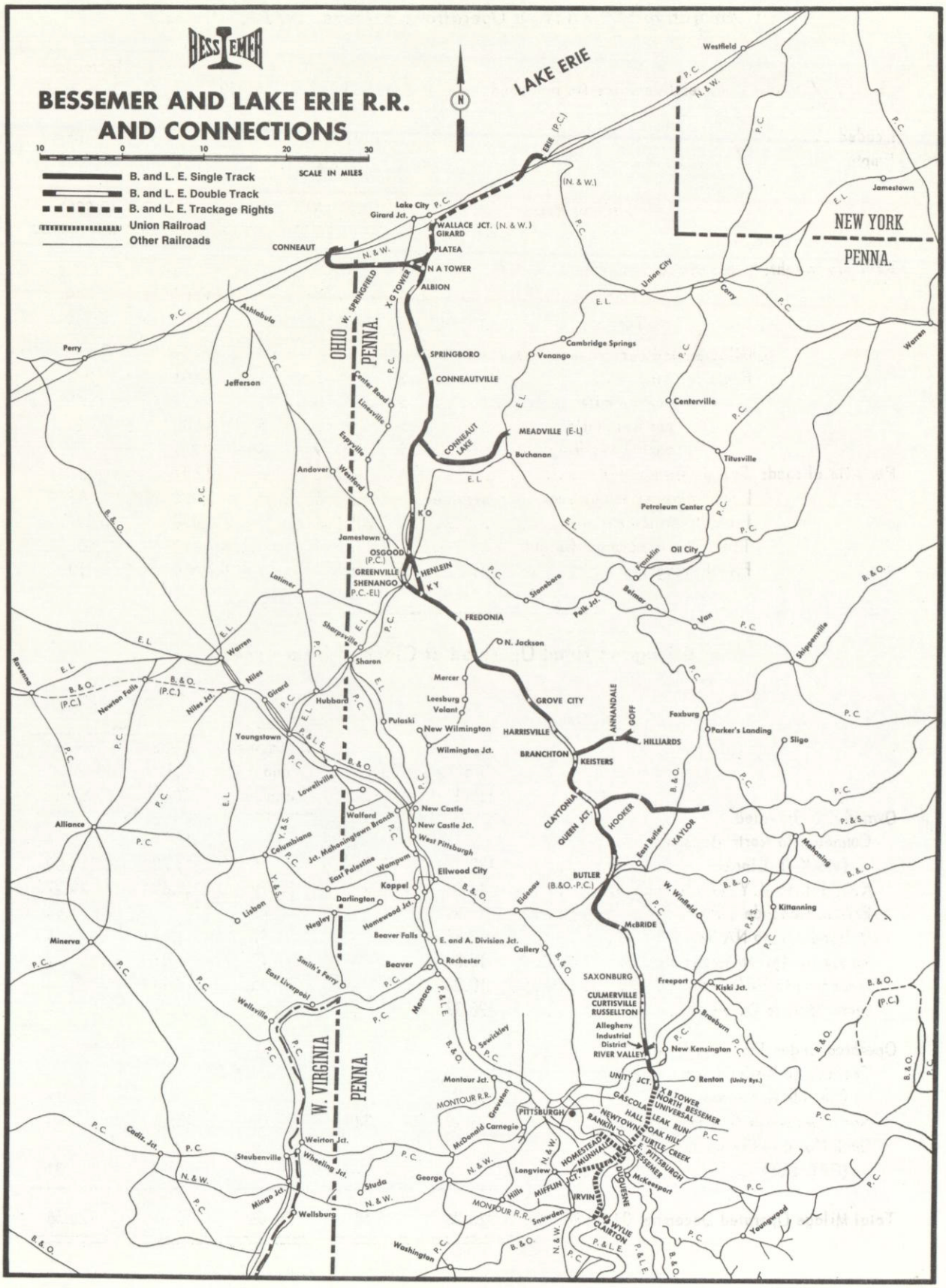
BESSEMER AND LAKE ERIE RAILROAD COMPANY

Comparative Statistics on Operations 1974 vs. 1973 Continued

Car Miles – Freight service (in thousands)	1974	1973	Increase (Decrease)
Loaded	32,768	32,874	(106)
Empty	12,610	14,742	(2,132)
Total car miles	45,378	47,616	(2,238)
Revenue freight: Tons per car – North	67.06	65.24	1.82
South	85.68	85.64	.04
Total	77.39	76.13	1.26
Miles hauled per ton – Revenue freight	79.50	83.05	(3.55)
Revenue: per ton	$ 1.875	$ 1.601	$ .274
per ton mile	$ .0236	$ .0193	$ .0043
per train mile	$ 78.60	$ 62.40	$ 16.20
per loaded freight car mile	$ 1.8719	$ 1.5231	$ .3488
Per mile of road: Freight train miles	3,543	3,647	(104)
Locomotive miles transportation service	5,146	5,064	82
Freight service car miles	206,264	216,436	(10,172)
Ton miles – Revenue freight	11,822,854	11,809,771	13,083
Freight revenue	$ 278,815	$ 227,594	$ 51,221

Mileage of Road Operated at Close of Year 1974

	First Track	Second Track	Passing Tracks, Crossovers and Turnouts	Switching Tracks: Miles of Way	Switching Tracks: Miles of Yard
Owned and Operated:					
Conneaut to North Bessemer (via K.O. Line)	139.46	33.25	15.80	44.73	104.00
K.O. Jct. to K.Y. (via Shenango)	12.05	1.91	.70	1.60	19.27
Erie to Cascade	.90	–	.43	–	1.98
Wallace Jct. to NA Tower	8.37	–	.97	1.82	–
Meadville Jct. to Meadville	15.39	–	.42	.87	–
Branchton to Hilliards	10.23	–	.25	2.10	–
Queen Jct. to Dewey	20.37	–	.82	4.51	–
Operated Under Trackage Rights:					
Cascade to Wallace Jct. (Norfolk & Western R.R.)	12.20	–	–	4.33	–
North Bessemer (Union Railroad Co.)	1.29	.34	.09	13.11	–
Dock No. 4 – Conneaut Ohio (P&C Dock Co.)	–	–	–	–	.31
Total Milage Operated December 31, 1974	220.26	35.50	19.48	73.07	125.56


BESSEMER
BESSEMER AND LAKE ERIE R.R.
AND CONNECTIONS
10 0 10 20 30
SCALE IN MILES
B. and L. E. Single Track
B. and L. E. Double Track
B. and L. E. Trackage Rights
Union Railroad
Other Railroads
N
LAKE ERIE
NEW YORK
PENNA.
OHIO
PENNA.
W. VIRGINIA
PENNA.
ERIE (P.C.)
(N. & W.)
Westfield
Jamestown
Lake City
Girard Jct.
WALLACE JCT. (N. & W.)
GIRARD
PLATEA
CONNEAUT
N A TOWER
ALBION
X G TOWER
W. SPRINGFIELD
Union City
Corry
Warren
Ashtabula
Perry
Jefferson
SPRINGBORO
CONNEAUTVILLE
Cambridge Springs
Venango
Centerville
Center Road
Linesville
Espyville
CONNEAUT LAKE
MEADVILLE (E-L)
Buchanan
Titusville
Andover
Westford
Petroleum Center
K O
Jamestown
OSGOOD (P.C.)
GREENVILLE
SHENANGO (P.C.-EL)
HENLEIN
K Y
Oil City
Franklin
Stoneboro
Belmar
Polk Jct.
Van
Latimer
FREDONIA
N. Jackson
Sharpsville
Sharon
Shippenville
Warren
Ravenna
Newton Falls
Niles Jct.
Niles
Girard
Hubbard
Mercer
Leesburg
Volant
GROVE CITY
ANNANDALE
GOFF
Foxburg
Parker's Landing
Sligo
Pulaski
New Wilmington
HARRISVILLE
HILLIARDS
Youngstown
Wilmington Jct.
BRANCHTON
KEISTERS
Lowellville
Walford
New Castle
New Castle Jct.
West Pittsburgh
CLAYTONIA
QUEEN JCT.
HOOKER
KAYLOR
East Butler
Mahoning
Alliance
Columbiana
Jct. Mahoningtown Branch
East Palestine
Wampum
Ellwood City
BUTLER (B.&O.-P.C.)
Koppel
Darlington
Homewood Jct.
Eidenau
W. Winfield
Kittanning
Lisbon
Negley
Beaver Falls
E. and A. Division Jct.
McBRIDE
Minerva
Callery
Smith's Ferry
Beaver
Rochester
SAXONBURG
Freeport
Kiski Jct.
East Liverpool
Wellsville
Monaca
CULMERVILLE
CURTISVILLE
RUSSELLTON
Braeburn
Allegheny Industrial District
RIVER VALLEY
New Kensington
Sewickley
UNITY JCT.
Renton (Unity Rys.)
Montour Jct.
MONTOUR R.R.
Groveton
X B TOWER
NORTH BESSEMER
UNIVERSAL
GASCOLA
HALL
LEAK RUN
NEWTOWN
OAK HILL
RANKIN
TURTLE CREEK
PITTSBURGH
Carnegie
McDonald
Weirton Jct.
Steubenville
Wheeling Jct.
Cadiz Jct.
HOMESTEAD
MUNHALL
BESSEMER
PITTSBURGH
Longview
McKeesport
Studa
George
MIFFLIN JCT.
DUQUESNE
Mingo Jct.
Hills
IRVIN
Wellsburg
Snowden
WYLIE
CLAIRTON
Youngwood
Washington
P.C.
N. & W.
E. L.
B. & O.
P. & L. E.
Y. & S.
P. & S.